



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2009 Biennium

Bill # HB0792

Title: Index postretirement GABA for future PERS and TRS members

Primary Sponsor: Himmelberger, Dennis

Status: As Introduced

Retirement Systems Affected: ☒ Teachers ☒ Public Employees ☐ Highway Patrol ☐ Police
☐ Sheriffs ☐ Firefighters ☐ Volunteer Firefighters ☐ Game Wardens ☐ Judges

Check the box if "Yes".

- ☐ Has this legislation been reviewed by the legislative interim committee?
☒ Has the cost of this legislation been calculated by the system's actuary?
☐ Does this legislation include full funding for any benefit revisions?

Public Employees Retirement System

	July 1, 2006 Current System	Increase/ (Decrease)
Present Value of Actuarial Liability	\$3,919,313,000	\$0
Present Value of Actuarial Assets	\$3,459,084,000	\$0
Present Value of Increased Costs	\$0	\$0
Actuarial Accrued Liability (AAL) Unfunded/(Funded)	\$460,229,000	\$0
Amortization Period of AAL (as of July 1, 2007)	Does not Amortize	36*

* The Amortization Period is reduced to 36 years because of the reduction in GABA for new members hired after July 1, 2007. The reduction in GABA is from 3% to a range of 0 - 1.5%. Any additional savings are unknown.

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Employee Contribution Rate	6.90%	6.90%	6.90%	6.90%	6.90%
Employer Contribution Rate	6.80%	6.80%	6.80%	6.80%	6.80%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
TOTAL Contribution Rate	13.80%	13.80%	13.80%	13.80%	13.80%

Teachers Retirement System (TRS)

	July 1, 2006 Current System	Increase/ (Decrease)
Present Value of Actuarial Liability	\$3,608,900,000	\$0
Present Value of Actuarial Assets	\$2,745,800,000	\$0
Actuarial Accrued Liability (AAL) Unfunded/(Funded)	\$863,100,000	\$0
Amortization Period of AAL	Does not Amortize	Unknown

	July 1, 2006	July 1, 2007	July 1, 2008	July 1, 2009	July 1, 2010
Employee Contribution Rate	7.15%	7.15%	7.15%	7.15%	7.15%
Employer Contribution Rate	7.47%	7.47%	7.47%	7.47%	7.47%
State Contribution Rate	0.11%	0.11%	0.11%	0.11%	0.11%
TOTAL Contribution Rate	14.73%	14.73%	14.73%	14.73%	14.73%

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other - Pension Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other - Pension Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

Description of fiscal impact:**Public Employees Retirement System (PERS)**

Prior to December 1 of each year, the amortization period for the Unfunded Actuarial Liability of the system would be measured. If the amortization period is less than 30 years, the Board shall determine the maximum percentage increase in the monthly benefit to all benefit recipients that would not cause the amortization period to exceed 30 years. Then, all benefit recipients would receive a benefit increase effective January 1 equal to the lesser of the maximum amount determined or 1.5% (the range is 0 to 1.5%). This provision would only apply to benefit recipients who became members of the system on or after July 1, 2007.

There is no current reduction in liabilities. The fiscal impact would be a reduction in the amortization period as of July 1, 2007 based on the reduced cost (normal cost) of the new members.

Teachers Retirement System (TRS)

HB 792 would terminate the funded 1.5% GABA for retired TRS members hired after July 1, 2007. New members hired after July 1, 2007, would be eligible for postretirement benefit enhancements of up to 1.5%,

provided the benefit increase would not cause the period required to amortize the System's unfunded liabilities to exceed 30 years. All postretirement adjustments for members hired after July 1, 2007, would be funded with increased unfunded liabilities.

FISCAL ANALYSIS

Assumptions:

Public Employees Retirement System (PERS)

1. These modified provisions will not directly impact the benefits of any current member. However, future active members will be impacted.
2. No adjustments have been made for actuarial gains or losses that may have emerged since the last valuation date, June 30, 2006.
3. Assumed that new entrants on or after July 1, 2007 will have the same demographic characteristics as the current active members of the system.
4. Assumed that the change in the GABA for new members will not impact future patterns of retirement, termination of employment or any other actuarial assumption.
5. Assumed that due to the "ad-hoc" nature of future GABA adjustments for new entrants under this bill that there would be no normal cost associated with the benefit adjustments for future new entrants. The funding of these Cost of Living Adjustments (COLA) would be entirely through adjustments to the Actuarial Liability.
6. This bill would require an additional valuation to be performed in the biennium. The additional cost would be approximately \$56,000 in the even years of the biennium.
7. The calculation of the adjustment payable under HB 792 would require an actuarial measurement be completed each year. The cost of this measurement is not expected to exceed \$5,600.
8. The cost of IT system enhancements would not exceed \$30,000 any other administrative expenses cannot be estimated at this time.
9. The first adjustments made under this proposal would not occur until December 2012; therefore any additional administrative costs would be delayed until FY 2013.

Teachers Retirement System (TRS)

10. An actuarial valuation of this proposal found that because HB 792 does not specify what level of Guaranteed Annual Benefit Adjustments (GABA) are desired, it is not possible to calculate a specific cost savings associated with this Bill. Cost savings will be realized only when the System's amortization period is in excess of 30 years and the full 1.5% GABA is not granted.
11. The annual ad hoc adjustments permitted under HB 792 would increase the unfunded liabilities of the retirement system.
12. The calculation of the adjustment payable under HB 792 would require an actuarial measurement be completed each year. The cost of this measurement is not expected to exceed \$3,000.
13. The cost of IT system enhancements would not exceed \$30,000 any other administrative expenses cannot be estimated at this time.
14. The first adjustments made under this proposal would not occur until December 2015; therefore any additional administrative costs would be delayed until FY 2016.

Long Range Impacts:

Public Employees Retirement System (MPERS)

1. Since reducing GABA from 3.0% to 1.5% would only affect future members, the Normal Cost will be lower for new members, but will be calculated as a blended rate in the valuations. Over time, the Normal Cost Rate will decrease to its ultimate level. The actuary projects an ultimate Normal Cost Rate of 10.04% (vs.

the current normal cost rate of 12.17%), that is, the rate we expect to be in effect when no active members remain who are entitled to the current GABA.

2. If the amortization period rises to 30 years, no GABA will be paid to any retiree who joined the System after the effective date of this proposal. If there is an actuarial gain in the next year (say investment returns are better than expected) then the GABA could be paid the next year. However, the following year there may be an actuarial loss (say investment returns less than expected) and no GABA will be paid and the amortization period could rise above 30 years.

Technical Notes:

Public Employee Retirement System (PERS) & Teachers Retirement System (TRS)

1. This bill creates a new tier for members hired after July 1, 2007.
2. The Montana Constitution, Article VIII, Section 15, requires all public retirement systems be funded on an actuarially sound basis. If a future Legislature fails to actuarially fund the system, the State could be subject to litigation if the Legislature's failure to act in a timely manner cause future GABAs not to be paid.
3. Costs are being deferred to the future by not pre-funding the intended benefits resulting in an extended funding period.
4. Policy Implications – the bill is inconsistent with both the Boards' funding policy and the SAVA committee's Principles and Guidelines.
 - a. HB 792 is inconsistent with the 2006 SAVA Committee's Principles and Guidelines adopted on June 22, 2006.
 - b. The TRS and PER Boards' have policies that all new legislative proposals include a provision for financing the entire cost of the proposal. The post-retirement increases for members hired after the effective date of this proposal will not be funded by revenue, but by a positive funded status. Generally, actuarial gains are used to counteract actuarial losses. If the gains are used to provide the GABA, then future losses will not be offset and the following will occur:
 - Future GABA payments will cease, and/or
 - Additional revenue will be required to bring the amortization back below 30 years.
5. Actuarially, the long-term savings of making the 1.5% GABA subject to the funding status is very difficult to predict.
6. The majority of TRS future hires will not retire for at least 25 years. Whether or not there is a 30 year amortization of the Unfunded Actuarial Accrued Liability 25 years from now will depend on future changes in the System's benefit structure or contribution schedule, in addition to future investment earnings. It is not possible to predict with any level of accuracy what the System's amortization period will be 25 years from now.

Sponsor's Initials

Date

Budget Director's Initials

Date